

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6419

BILL NUMBER: HB 1226

NOTE PREPARED: Jan 4, 2006

BILL AMENDED:

SUBJECT: Property tax deduction for the elderly.

FIRST AUTHOR: Rep. Budak

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill increases the income threshold from \$25,000 to \$35,000 for individuals claiming the property tax deduction for the elderly.

Effective Date: July 1, 2006.

Explanation of State Expenditures:

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base caused by this bill would reduce the property tax revenue for these two funds by a minimal amount.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law a person 65 or over is entitled to a deduction of \$12,480 up to ½ of AV. To be eligible for the deduction, the owners' combined adjusted gross income can not exceed \$25,000 and the assessed value of the property can not exceed \$144,000. The bill would increase the \$25,000 income limit to \$35,000.

The elderly deductions for taxes paid in 2005 totaled about \$1,305.9 M. They totaled \$ 597.9 M in CY 2003 and \$675.3 M in CY 2004. The deduction amount was increased from \$6,000 to \$12,480 effective with taxes paid in 2005.

The elimination of the AV limitation would result in an estimated 20.0% or \$260.8 M AV increase in elderly property tax deductions. These estimates are based on 2003 Individual AGI Tax return information for taxpayers with an estimated AV of \$144,000 or less who claimed: (1) the AGI deduction for property taxes paid by homeowner's and (2) the income exemption for the elderly or blind. There were 150,706 of these returns that had income of up to \$25,000 and 30,095 returns with income between \$25,000 and \$35,000.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A \$ 260.8 M AV increase in elderly deductions would cause an estimated \$0.0015 increase in the statewide average net tax rate in CY 2007. This translates into a property tax shift of about \$4.9 M.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Fair Board; Department of Natural Resources.

Local Agencies Affected: All.

Information Sources: OFMA Income Tax Databases; Local Government Database.

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